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POTENTIAL ACTION UNDER SECTION 203 OF THE TRADE ACT OF 1974 WITH REGARD TO IMPORTS OF CERTAIN STEEL

PROPOSAL ON ADJUSTMENT ACTIONS
OF
GERLIN, INC.
REGARDING
STAINLESS STEEL FLANGES

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EXECUTIVE SUMMARY

These comments are submitted on behalf of Gerlin, Inc. of Carol Stream, Illinois, a U.S. manufacturer of stainless steel flanges and stainless steel butt-weld pipe fittings. Gerlin supports a remedy with respect to imports of finished stainless steel flanges and butt-weld pipe fittings, and opposes a remedy with respect to imports of stainless steel flange forgings. This submission will address primarily the injurious impact of imports of stainless steel flanges, and Gerlin's plans to adjust to import competition if an effective remedy is implemented by the President. A separate submission on fittings is being filed by Gerlin and several other fitting manufacturers.[1/]

Flanges are used to connect stainless steel pipe sections and piping system components at points at which the ability to disconnect and reconnect the sections or components is crucial. Typically, two flanges are attached to pieces of pipe and bolted together, with a gasket between them. Flanges of stainless steel are particularly used when the piping system must be able to withstand corrosion, prevent contamination, withstand extreme temperatures, or contain high pressure.

Gerlin produces a full range of standard sizes and types of finished stainless steel flanges. Gerlin manufacturers its flanges from flange forgings. Since it is not an integrated manufacturer, Gerlin purchases forgings from outside sources. For reasons described below and in more detail in

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[1/] For purposes of its injury analysis, the International Trade Commission (the "ITC") grouped together, in a product category 33 called "stainless steel flanges and fittings," seven tariff classifications, covering finished stainless steel flanges (HTSUS 7303.21.5000), stainless steel flange forgings (HTSUS 7303.21.1000), and five other stainless steel products (butt-weld pipe fittings, pipe couplings, elbow and bends, nipples, and other tube and pipe fittings). Because each of these products has its distinct uses, markets, and producers, the condition of the industry and the proposals for remedy should be considered separately for each tariff classification.

Gerlin's exclusion request to be submitted on November 13, the outside sources of forgings are typically foreign.

Imports of finished stainless steel flanges more than doubled in volume from 1996 through 2000, while their unit values (declared value per kilogram, according to official import statistics) dropped 30 percent during this same period. The low and declining unit values of imports were especially destructive because of the price-sensitivity of the stainless steel flange market. As a result of their huge price advantage, imports dislodged domestic products and captured sales. The large volume and low prices of imports seriously eroded all aspects of the economic health of Gerlin, from profitability to market share to net sales. Imports are disabling Gerlin from continuing to make the capital investments necessary to remain competitive.

Unlike most other segments of the steel industry under investigation, the stainless steel flange industry is made up of relatively small, privately-owned companies. This is also a highly capital-intensive industry, where the large manufacturing equipment used to produce flanges typically costs millions of dollars. As a result, companies like Gerlin, which do not have access to the major capital markets, must fund their capital expenditures out of company profits or through borrowing. At a time when Gerlin's overall economic performance is suffering due to cheap imports of finished flanges, it is impossible for the company to fund the major improvements it wishes and needs to make.

With an effective import remedy in place, Gerlin could begin to generate the profits necessary to carry out the continued modernization of its production facilities. Gerlin has major capital improvements planned for [ ].

These improvements would significantly increase Gerlin's productivity and reduce its costs of production, increasing its ability to compete with imports.

An effective remedy regarding stainless steel flanges must not, however, extend to stainless steel flange forgings. In order to remain in business, Gerlin must maintain its sources for flange forgings. Because stainless steel flange forgings are made in the United States almost exclusively by integrated manufacturers of forgings and flanges, the forgings are not available to independent flange makers such as Gerlin, which compete directly with the integrated producers. Without a reliable supply of flange forgings, Gerlin would be driven from business regardless of any restraints placed on imports of finished flanges. Accordingly, Gerlin supports import relief from the injurious imports of finished flanges but not from the necessary imports of flange forgings.[2/] Indeed, if the President were to impose restrictions on imports of flange forgings, it would cripple the ability of Gerlin, and other independent flange makers, to undertake adjustments to become more competitive with imports of finished flanges.

I. THE CURRENT PROBLEMS AFFECTING GERLIN'S ABILITY TO COMPETE WITH IMPORTS

Gerlin is a small, privately-owned company that has been in operation since 1984. Gerlin has worked hard over the past 17 years to remain a competitive force in the U.S. market. It has invested in state-of-the-art machinery and modernized its production processes, while maintaining the highest quality standards.

[2/] Gerlin will address this exclusion in greater detail in its exclusion request regarding stainless steel flange forgings, which it will submit to the TPSC on November 13, 2001.

In spite of its efforts, Gerlin now faces severe problems affecting its ability to compete with imports. The surging volume of imports over the past five years, coupled with the severe price underselling by those imports, have seriously eroded the financial health of Gerlin. Low-priced imports have made major inroads into the domestic market, undermining Gerlin's sales, profitability, and market share. As a result, Gerlin's plans to continue to modernize its operations (as detailed in Part II below) have come to a halt.

A. The Surging Volume of Imports

Imports of finished stainless steel flanges have risen dramatically over the past five years. From 1996 to 2000, imports of finished stainless steel flanges more than doubled, from 4.1 million kilograms to more than 8.7 million kilograms. The annualized import volume for the first half of 2001 exceeded the import volume for each of the previous five years except 2000. For the entire product category of stainless steel flanges and fittings, imports increased in volume by over 73 percent between 1996 and 2000. Staff Report to the ITC on Inv. No. TA-201-73 ("Staff Report"), at STAINLESS-26.

Imports of finished stainless steel flanges from Mexico are among the principal contributors to the economic problems faced by Gerlin. The growth rate of Mexican imports has exceeded that of imports generally: Mexican stainless steel flange imports in 2000 were over 350 percent of their import volume in 1996. By comparison, total imports of stainless steel flanges in 2000 were about 210 percent of their import volume in 1996. Mexico was the third largest foreign supplier of stainless steel flanges in 1996, the third largest again in 1997, the third largest again in 1998, the

second largest in 1999, the second largest in 2000, and the third largest in the first half of 2001. Other major foreign sources of supply include Italy, Germany, Korea, and India.

B. The Severe Price Declines and Underselling

Imports of finished stainless steel flanges have steadily declined in unit value. According to the official import statistics released by the ITC, in 1996 the imports were entering at a declared value of $6.79 per kilogram. This unit value fell substantially in each successive year: $5.95 in 1997; $5.16 in 1998; $4.70 in 1999; $4.49 in 2000; and $4.19 in the first half of 2001. This 30-percent drop in unit value placed a heavy weight on flange pricing in the U.S. market: the unit value of Gerlin's own flanges were [

] by the first half of 2001. Thus, Gerlin's unit values [ ] from 1996 to the first half of 2001.[3/]

These low and declining unit values of imported finished stainless steel flanges were especially destructive because of the price-sensitivity of the stainless steel flange market. According to the Staff Report, at STAINLESS-98, price is second only to quality in the ranking of factors that determine purchasing decisions for stainless steel products. In Gerlin's experience, that ranking certainly applies as well to the specific market for stainless steel flanges. Accordingly, the price advantage of imported stainless steel flanges has enabled these imports to dislodge domestic prod-

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[3/] The confidential business information in this submission pertaining to Gerlin's flange operations was submitted to the ITC as Exhibit A to Gerlin's pre-hearing brief in the injury phase of the ITC's investigation. Gerlin would be happy to provide the TPSC with a copy of this exhibit.

ucts and capture market share. Notably, when imports of stainless steel flanges surged by 50 percent from 1999 to 2000, Gerlin's commercial shipments [ ].

The large volumes of Mexican imports also undercut domestic producers' prices. The unit value of Mexican stainless steel flanges dropped from $5.97 per kilogram in 1996 to $5.17 per kilogram in 2000 and the first half of 2001. The Staff Report, at STAINLESS-130, found evidence of substantial underselling by Mexican products in the product category for stainless steel flanges and fittings, indeed, underselling in every instance for which data were available. Gerlin has also experienced underselling by Mexican imports, as well by other foreign flanges.

C. The Impaired Financial Health of Gerlin

The overwhelming volume of imports, coupled with their extremely low price, caused a deterioration in virtually every measure of Gerlin's economic performance over the past five years:

- **Idling of Productive Facilities:** From 1997 to 1999, Gerlin's annual production of flanges constituted fully [ ] percent of its flange capacity. By 2000, that percentage had [ ] percent, and in the first half of 2001 the capacity utilization was [ ] percent.
- **Weakened Profitability:** Gerlin's operating income from its flange operations [ ] in recent years. From [ ]. In [ ]. Gerlin's operating income in the first half of 2001 was [ ] for the first half of 2000. As a

proportion of net sales of stainless steel flanges, Gerlin's operating income ranged from [

].

- **Declining Productivity:** Gerlin's productivity [

] from 1996 to the first half of 2001.

- **Unemployment and Underemployment:** Gerlin [

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- **Declining Sales:** Gerlin's [

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- **Increasing Inventories:** End-of-period inventories [

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- **Declining Market Share:** Gerlin's market share relative to imports [

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This overall deterioration in Gerlin's economic performance has completely undermined its ability to generate adequate capital to finance modernization. Gerlin [

]. To remain competitive in this industry, a company must be able to undertake huge capital investments. The manufacturing process for finished flanges involves numerous steps, including heat treating, beveling, threading, center-boring, washing, and degreasing. Most of these steps are performed on different machines, each of which can cost in the hundreds of thousands and often millions of dollars.

Because the typical flange manufacturer is a privately-owned, relatively small company, it does not have access to major capital markets. Thus, companies such as Gerlin must fund their capital expenditures either through operating profits or bank financing. As explained above, Gerlin's economic performance has been so devastated by large volumes of cheap imports that it has been unable to generate the profits needed to invest in new equipment. The flood of imports and the depressed prices make it impossible to justify new investments in the stainless steel flange industry.

Despite these current problems affecting Gerlin's ability to compete with imports, Gerlin is confident that it would be able to make the investments needed to remain competitive, as outlined below, if given some breathing room to recover from the injurious impact of imports over the past five years.

II. THE ADJUSTMENT ACTIONS PROPOSED BY GERLIN

During a period of import relief, Gerlin would undertake substantial steps to improve its ability to compete after relief terminates.[4/] Because of the precarious state of its financial health, Gerlin has deferred certain major investments that it would wish to make in order to enhance its competitiveness. With an import remedy in place, Gerlin would at last be able to launch these investments. These investments involve Gerlin's [

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[

[4/] The following adjustment plans relate only to Gerlin's flange business. Gerlin also expects to make substantial investments in its stainless steel butt-weld pipe fitting business if effective relief is granted with respect to imports of those products. Gerlin's adjustment proposal regarding fittings is presented in a separate submission, being filed jointly by Gerlin and several other fitting producers.

] These adjustment measures would substantially enhance Gerlin's competitiveness.

III. THE FORM AND SCOPE OF IMPORT RELIEF THAT WILL PROMOTE POSITIVE ADJUSTMENT BY GERLIN

Gerlin expects that its sales of stainless steel flanges, the prices at which it can make those sales, and the profitability of its business would all improve substantially during a period of import relief. These improvements would not be immediately realizable, for the dire state of the domestic flange industry will not be reversed overnight. But if the appropriate remedy is imposed, it should provide the relief Gerlin needs in order to adjust to import competition.

Any remedy imposed by the President must meet several criteria to be effective in promoting positive adjustment to stainless steel flange import competition, without imposing greater costs than benefits. First, the remedy must address both the huge volume of imports in this market and the severe price underselling. To do so, the remedy must seek to restore the import volume and pricing to levels last seen in 1993 through 1995, the period prior to the 1996-2001 period that witnessed such injurious imports. A remedy that uses a more recent baseline, one including any of the last six years, would effectively reward those foreign suppliers that caused the surge of imports during those years.

Second, the remedy must afford domestic flange makers a full four years to make the investments necessary to adjust to import competition. Gerlin would not be able to undertake its adjustment measures without market stability over at least four years, so that it could [

]. Gerlin's adjustment plans are multi-year measures, and they depend on a multi-year remedy.

Third, the remedy must not be preconditioned on reductions in domestic stainless steel flange capacity. Unlike some of the major U.S. steel producers, the stainless steel flange industry is not characterized by overbuilt capacity. Until the recent surge of cheap imports, domestic capacity utilization was reasonably healthy. Capacity utilization for all stainless steel flange and fitting producers fell, however, from 78 percent in 1997 to around 46 percent in the first half of 2001. Staff Report, at STAINLESS-C-12. An effective remedy should restore healthy capacity utilization rates not by closing productive U.S. facilities but by restricting the imports that have recently driven capacity utilization so far below its historical levels.

Finally, the remedy must not restrict imports of stainless steel flange forgings. These imports are essential to the viability of Gerlin and of other non-integrated flange producers. There is no commercial U.S. market for flange forgings, which disables independent flange makers from obtaining adequate supplies of flange forgings domestically. The ITC staff found that forgings are one of a number of stainless steel products that purchasers identified as "unavailable or in short supply in the U.S. market." Staff Report, at STAINLESS-100. Extending any remedy to include foreign forgings would seriously undermine the effectiveness of the remedy, by making it impossible for Gerlin and other independent flange manufacturers to survive, let alone adjust to import competition.

Leaving flange forging imports unrestricted would cause no damage to the domestic industry. Because the use of imported forgings is limited, and because many of the major flange produ-

cers are largely integrated, the volume of imported forgings is likely to remain low. Furthermore, because all of the domestic producers compete exclusively in the finished flange market, imported forgings would never confront them in the marketplace. The small volume of imported forgings needed by domestic flange producers is conducive to a more competitive domestic flange industry, and restricting such forgings would disregard the mandate of Section 201.

Notably, excluding stainless steel flange forgings from any remedy imposed by the President, would cure the anomaly that *carbon* steel flange forgings (HTSUS 7307.91.1000) were not even included in this investigation by the U.S. Trade Representative. It makes no commercial sense to include stainless steel flange forgings while excluding carbon steel flange forgings, since the two types of forgings play precisely the same role in their respective markets.

Gerlin proposed to the ITC a remedy that meets the foregoing criteria and that would be an effective foundation for positive adjustment actions by domestic stainless steel flange makers. Gerlin will discuss remedy issues in more detail in its submission to the TPSC on December 28, 2001.

CONCLUSION

The stainless steel flange industry is in dire condition. The flood of low-priced imports that entered the U.S. market over the past six years has taken its toll on the economic performance of Gerlin. Gerlin has plans to modernize its operations in order to enhance its competitiveness, but it will be unable to implement these plans unless the President imposes an effective remedy. Import relief that addresses the huge volume of imports in the U.S. market, as well as their low price, that extends for a full four years, that does not require further cutbacks in capacity, and that leaves

crucial sources of flange forgings unrestricted, is essential for Gerlin to be able to achieve its adjustment objectives.

Respectfully submitted,

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